

Message Text

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ACTION EUR-08

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LIMDIS

PASS AGRICULTURE FOR ASSISTANT SECRETARY BELL AND GORDON O. FRASER

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: SOME COMMENTS ON THE DATA IN LARDINOIS' LETTER OF 16 MAR 76

REF EC BRUSSELS 2636

1. SUMMARY. WE EXPECT COMMUNITY TOTAL CLOSING STOCKS OF NFDN BY THE END OF THE 1976 DAIRY MARKETING YEAR TO TOTAL 1.2 - 1.3 MILLION TONS, COMPARE TO LARDINOIS' ESTIMATE OF 800,000 TONS.
END SUMMARY

2. IN HIS LETTER TO SECRETARY BUTZ (REFTEL), LARDINOIS EXPRESSED HIS EXPECTATION THAT -- TAKING INTO ACCOUNT THE MEASURES APPROVED BY THE MARCH 2-6 COUNCIL OF AGRICULTURAL MINISTERS -- EC STOCKS OF NFDN WOULD FALL TO 800,000 TONS BY THE END OF THE 1976 MARKETING YEAR FROM THEIR CURRENT LEVEL OF 1,200,000 TONS. WE HAVE NOT BEEN ABLE TO OBTAIN THE FIGURES SUPPORTING THIS ESTIMATE; HOWEVER, IT DOES NOT SEEM TO BE IN LINE WITH THE MOST RECENT DATA AVAILABLE TO US.

3. THE MISSION'S ESTIMATE OF EC PRODUCTION AND UTILIZATION OF NFDN
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IN MARKETING YEAR 1976 IS SHOWN BELOW BASED ON FIGURES WE RECENTLY

OBTAINED FROM THE COMMISSION AND OTHER INFORMED COMMUNITY AGRICULTURA

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SOURCES (1,000 M.T.)

BEGINNING STOCKS

- INTERVENTION	1,200
- PRIVATE	190
TOTAL	1,390
PRODUCTION	2,010
TOTAL AVAILABILITY	3,400

CONSUMPTION

- AT FULL MARKET PRICE	200-250
- IN CALF FEED, SUBSIDIZED	1,250
- IN PIG AND POULTRY FEED, SUBSIDIZED	400
TOTAL	1,850 - 1,900

EXPORTS

- COMMERCIAL	50-100
- FOOD AID	150
TOTAL	200 - 250

CLOSING STOCKS

- INTERVENTION	1,010-1,110
- PRIVATE	190
TOTAL	1,250 - 1,350
TOTAL DISAPPEARANCE	3,300 - 3,500

4. IN CONSTRUCTING THE FOREGOING BALANCE, WE HAVE USED COMMISSIONER LARDINOIS' FIGURES TO ESTIMATE THE EFFECTS OF THE NEW EC MEASURES. THUS, WE HAVE ASSUMED PER THE REFTEL THAT THE EC WILL MOVE 150,000 TONS OF NFDN IN FOOD AID AND 400,000 TONS INTO PIG AND POULTRY FEED IN 1976. SIMILARLY, WE HAVE ASSUMED THAT NFDN GOING INTO CALF FEED IN 1976 WILL EQUAL THE 1,050 TONS FED IN THAT MANNER IN 1975 PLUS AN EXTRA UTILIZATION OF 200,000 TONS FORESEEN BY LARDINOIS OWING TO THE INTRODUCTION OF A MINIMUM INCORPORATION REQUIREMENT OF 60 TO 65 PERCENT NFDN IN CALF FEED. ALSO, WE HAVE USED LARDINOIS' FIGURE OF 1.2 MILLION TONS FOR BEGINNING INTERVENTION STOCKS. RE THE OTHER FIGURES IN OUR BALANCE, THE FOLLOWING LIMITED OFFICIAL USE

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POINTS SHOULD BE NOTED:

(A) CONSUMPTION AT FULL MARKET PRICE. WE HAVE SEEN VARYING ESTIMATES OF THE IMPORTANCE OF THIS CATEGORY, ALL SEEM TO FALL WITHIN THE RANGE OF 200-250,000 TONS. THIS OUTLET HAS BEEN DECLINING AND WILL LIKELY CONTINUE TO DECLINE -- ESPECIALLY IN VIEW OF THE PRICE INCREASE SCHEDULED FOR NFDN IN 1976.

(B) EXPORTS. THIS CATEGORY IS VERY DIFFICULT TO PREDICT SINCE IT DEPENDS PRIMARILY ON EC POLICY DECISIONS. NFDN EXPORTS IN 1975 ARE ESTIMATED BY THE COMMISSION AT ONLY 70,000 TONS DOWN FROM 266,000 AND 220,000 TONS IN 1974 AND 1973, RESPECTIVELY. HOWEVER, IN VIEW OF THE STIFF COMPETITION FROM OTHER EXPORTERS AND THE LARGE AMOUNT OF NFDN EXPECTED TO BE MOVED BY THE EC AND OTHER PRODUCERS, IT IS DIFFICULT TO FORESEE A SHARP INCREASE IN EC EXPORTS.

(C) THE PRODUCTION FIGURE IS AN ESTIMATE MADE IN LATE FEBRUARY 1976 BY THE COMMISSION.

5. A NUMBER OF FACTORS COULD EXPLAIN THE DIVERGENCE BETWEEN OUR FIGURES AND THE 800,000 TONS ADVANCED BY LARDINOIS:

(A) LARDINOIS IS APPARENTLY REFERRING ONLY TO PUBLIC INTERVENTION STOCKS. PRIVATE STOCKS OF NFDN ARE CURRENTLY ESTIMATED AT ABOUT 190,000 M.T.; WE HAVE ASSUMED THAT THEY WILL STAY AT ABOUT THAT LEVEL IN OUR BALANCE.

(B) LARDINOIS' ESTIMATE MAY BE BASED ON A LOWER NFDN PRODUCTION FIGURE -- ON THE ASSUMPTION THAT INCREASED SUBSIDIES FOR THE FEEDING OF LIQUID SKIM MILK (ALREADY GIVEN TACIT CONSENT BY THE COUNCIL) OR OTHER MEASURES SUCH AS THE WITHHOLDING PREMIUMS OR LEVIES ON PRODUCERS (YET TO BE AGREED ON) MAY REDUCE NFDN PRODUCTION IN 1976.

(C) LARDINOIS MAY BE ASSUMING A HIGHER LEVEL OF EC EXPORTS IN 1976 BASED ON INCREASED SALES TO THE USSR AND EASTERN EUROPE OR THROUGH BILATERAL COMMODITY AGREEMENTS OF THE EC-EGYPT TYPE.

6. IN CONSTRUCTING OUR SUPPLY AND DEMAND BALANCE WE HAVE GIVEN THE COMMUNITY THE BENEFIT OF THE DOUBT WITH RESPECT TO THE EFFECTIVENESS LIMITED OFFICIAL USE

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OF THE MEASURES RECENTLY ADOPTED. WE HAVE, HOWEVER, SEEN EVEN HIGHER ESTIMATES OF THE EC'S END OF 1976 NFDN STOCKS. THE MARCH 10 ISSUE OF THE FRENCH AGRA EUROPE REPORTS THE PREDICTIONS OF CERTAIN EXPERTS THAT THESE STOCKS WILL TOTAL 1.5 MILLION TONS OR MORE -- EVEN TAKING INTO ACCOUNT THE COUNCIL'S RECENT DECISIONS. ALSO, FEFAC INFORMS US THAT THE INCREASED USE OF NFDN IN CALF FEED WILL COME ABOUT LARGELY AT THE EXPENSE OF CERTAIN WHEY PRODUCTS; THUS, NEW PROBLEMS MAY BE FOMENTED IN ANOTHER PART OF THE DAIRY SECTOR.

7. OTHER POINTS IN LARDINOIS' LETTER. THE "RELATIVE DECLINE IN THE SUPPORT PRICE OF SKIMMED MILK POWDER" IN THE LARDINOIS' LETTER PROBABLY REFERS TO THE FACT THAT THE INTERVENTION PRICE FOR NFDN WAS RAISED BY LESS THAN THE TARGET PRICE FOR MILK OR THE SUPPORT PRICE FOR BUTTER. THE COUNCIL AGREED THAT THE INTERVENTION PRICE

FOR NFDM WAS TO BE CALCULATED AS USUAL ON TH BASIS OF THE MILK
TARGET PRICE AND THEN REDUCED BY 2 PERCENTAGE POINTS FOR THE
FIRST STAGE, AND BY 1 PERCENTAGE POINT FOR THE SECOND STAGE
(SEPTEMBER 16) PRICE INCREASE. THE COMMISSION HAS INFORMED US
THAT THE FIRST STAGE PRICE INCREASES WILL BE AS FOLLOWS:

1975/76 AS OF 3/15.76 PERCENTAGE

(U.A./100 KGS) INCREASE

NFDM INTERVENTION PRICE	88.70	90.16	1.6
BUTTER INTERVENTION PRICE	209.58	218.08	4.1
MILK TARGET PRICE	15.59	16.29	4.5

8. FINALLY, NONE OF THE LONG TERM PROGRAMS MENTIONED BY LARDINOIS
HAVE YET BEEN APPROVED BY THE COUNCIL. EVEN ASSUMING THEY WILL BE
ADOPTED, IT IS UNLIKELY THEY WILL HAVE MUCH EFFECT UNTIL TH
1977/78 DAIRH MARKETING YEAR. HINTON

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Draft Date: 17 MAR 1976
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